

Canadian Industries Limited



Annual Report
1939

CANADIAN INDUSTRIES LIMITED

C-I-L HOUSE

MONTREAL

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NATIONAL TRUST COMPANY, LIMITED, MONTREAL

MAR 20 1943

ANNUAL REPORT

THE Directors have pleasure in submitting herewith the twenty-ninth Annual Report of Canadian Industries Limited, together with the Balance Sheet, the Income and Expenditure Account and Surplus Accounts for the year ended 31st December, 1939.

Industrial reports, to the extent that they reflect the Canadian economy, take on a special significance when the nation's resources are assembled for war. As an introduction to this report, certain factors which influenced business results in 1939 have been selected for mention. Canada's industrial production advanced progressively during the greater part of the year and reached a high level of activity in the final months. A major factor in the improvement was the increased demand for Canadian products in the United States, although forces within the Dominion were also promoting recovery. Farm income, more uniformly distributed than in previous years, showed some advance and there was a steady increase in employment. In the construction industry, residential building acted as a stimulus on business, and industrial construction was encouraged by an amendment to the Income War Tax Act. The immediate response to this tax amendment diminished as the international situation deteriorated, although the preparation of plants and equipment to meet the needs of war caused a moderate revival during the last quarter of the year. At the same time a rise in commodity prices resulted in heavy purchasing to replenish depleted inventories, which in turn speeded up manufacturing activity. Purchases of various military supplies added to the general business volume but government expenditure for war purposes had not

been a determining factor in the level of industrial production by the end of the year.

Prior to September there were fears that an outbreak of hostilities would unsettle industry in this country: so far they have proved to be unfounded. The present trend is towards the utilization of total capacity in many branches of industry, and a prolonged struggle may bring about expansion in manufacturing facilities in order to supply the specialized needs of war. Indeed, a wide departure from the industrial structure devoted to peacetime requirements may be unavoidable. To curb harmful tendencies that might otherwise develop under such conditions, the government has adopted vigorous measures, and by foreign exchange control has stabilized the value of the currency and safeguarded the available supply of foreign exchange. In many industrial situations, however, control from within can be more effective than regulation by outside agencies, and doubtless industry in its own best interests will seek to conform with the national effort and will endeavour to avoid actions which might render more difficult the eventual readjustment to a peace-time basis.

FINANCIAL REVIEW

THE marked recovery in some of the major chemical consuming industries which had suffered a contraction of activity in 1938, brought about a progressive expansion in the demand for the Company's products throughout the year under review, and the results of the various operating activities show a favourable comparison with the previous year. The total net income for 1939, after providing for normal depreciation charges and contingencies, as well as for income taxes, reached \$6,232,143 as compared with \$4,516,754 in the previous year and \$5,721,862 in 1937. Earnings at \$8.52 per common share compare with \$6.07 per share in 1938 and \$7.86 in 1937. Expressed as a percentage of total earnings (excluding the non-recurring gains from realization of marketable securities), and as distinct from income from investments, earnings received from the Company's manufacturing and selling activities stood at 89% this year as against 91% in 1938 and 88% in 1937.

INVESTMENT INCOME

Income from holdings of marketable securities and from investments in subsidiary and other industrial companies was 66% higher than in 1938, although not achieving the high level of 1937. The improvement is largely attributable to the increased dividends received from General Motors Corporation which totalled \$3.50 per share as against \$1.50 per share in the previous year. The return from holdings of Dominion Government bonds remained practically unchanged, but in 1939, after a lapse of ten years, a common stock dividend of 50 cents per share was received from Dunlop Tire and Rubber Goods Company Limited.

Income from the investment in subsidiary companies was 30% higher than in 1938 because of the increase in dividends received from Canadian Hanson & Van Winkle Company Limited, income from other subsidiaries being substantially the same as in 1938. Accounts of subsidiary companies have not been consolidated with those of this Company, and earnings have been included in investment income only to the extent of this Company's share in the dividends declared. For the year under review, profits retained in subsidiary companies totalled \$230,000, but two subsidiary companies sustained losses amounting to \$8,800 and the Company has provided for its share of such losses.

DIVIDENDS

Regular dividends on the cumulative preferred stock at the rate of 7% per annum were paid quarterly. Dividends on the common stock totalling \$7.50 per share were declared for 1939 and, although \$1.50 per share more than in 1938, are at the same level as in 1937. The common share dividends were paid as follows: 29th April, \$1.50; 31st July, \$1.50; 31st October, \$1.75; and 26th December, \$2.75. Income of \$708,745 was retained in the Company and the balance of Earned Surplus was \$4,348,231 at the end of 1939.

NET CURRENT ASSETS

In the absence of exceptionally large capital expenditures, net current assets increased \$1,100,000 during the year to \$15,750,000

at 31st December 1939, and working capital is available to take care of any normal expansion in the Company's business. Marketable securities are carried in the Balance Sheet at \$4,226,000, which was \$53,000 above the market value at 31st December. Accounts receivable are appreciably higher this year, but the increase is caused by the higher level of sales in the last few months. In accordance with usual practice, inventories have been valued at the lower of cost or market price, and at \$8,075,000 are \$1,225,000 higher than at the end of 1938. Part of the increase is due to a rise in prices, but coverage on raw materials is substantially greater than a year ago.

FIXED ASSETS

The investment in plants, buildings, equipment and land increased by \$1,231,000 during 1939 and is recorded on the Balance Sheet at \$34,333,000. Expenditures on new construction amounted to \$1,766,000 during the year, and assets originally valued at \$390,000 were discarded or replaced in accordance with the Company's long-standing policy of modernizing and extending manufacturing facilities whenever justified by the increased demand for its products or by economies made available through the introduction of improved methods of manufacture. In addition, assets valued at \$145,000 have been transferred to a new subsidiary company.

The income tax credit for capital expenditures stimulated new construction, and a total outlay of \$2,850,000 was approved, of which \$1,270,000 provides for additional manufacturing units and \$1,580,000 for extensions and replacements to existing plants and equipment. Among the new units are the paint works at Cote St. Luc, near Montreal, which will replace an obsolete plant; additional caustic soda facilities at Shawinigan Falls and Windsor; a nitrocotton plant at Beloeil; and a plant for the manufacture of ammonium chloride at Hamilton. Extensions and replacements include major additions to plant services at Beloeil and improvements at the "Fabrikoid" works in New Toronto.

The Company's plants continue to be maintained at a high standard of operating efficiency, and \$1,080,000 has been spent on

repairs and maintenance during 1939. A further amount of \$1,722,000 was charged into operating costs during the year to provide for depreciation at rates consistent with past experience.

TAXATION

Industry's share of taxation was increased by legislation enacted in Canada in 1939. The Company's contribution under all forms of taxation except sales taxes, totalled \$1,688,000 for 1939 as compared with \$1,283,000 in 1938. These figures represent only the determinable cost of taxation to the Company, however, and do not include the indirect cost involved in the compliance with government requirements by the preparation of numerous complex returns.

OPERATING REVIEW

REVERSING the trend of 1938, when the value of the year's sales was lower than in the previous year, total sales for 1939 advanced 13% over the 1938 level. The greater part of the improvement occurred towards the end of the year, although at the end of the first six months sales were 4% higher than in the comparable period of 1938. A feature of the advance in the second half of the year was the substantial increase in sales of the Cellulose Products and Chemical Groups, as the increase in sales of the Explosives and Ammunition and Fertilizer Groups accounted for only a quarter of the improvement during that period. The growing demand for chemicals is continually being augmented by the development of new products and processes which tend to broaden the Company's market and enable it to derive greater benefit from the chemical relationships which characterize the operations of its eleven industrial divisions. There was no outstanding addition made to sales volume through new lines taken on during the year, but good progress was reported for the products that were introduced to the Canadian market in 1939, and developments in hand, as they become available, promise to add materially to the Company's position in the chemical field.

The increased demand for the Company's products resulting from accelerated industrial activity in Canada, together with the

interruption of ocean transport facilities and the flow of materials and supplies following the outbreak of war, confronted the production, technical and sales staff of the operating divisions with a variety of problems. The efficiency with which difficulties were overcome and schedules adjusted is to be commended.

The Company continued its policy of confining sales of military products to the requirements of the Canadian Government and governments of other British Empire units. Sales of such products in 1939 were not large, but it is to be expected that the Company will be called upon to utilize to the fullest extent its technical knowledge and experienced personnel.

CELLULOSE PRODUCTS GROUP

The multiplicity of uses for "Cellophane" as a protective and hygienic covering was added to in 1939 by the Division's efforts to be of service to the consumer. In addition to supplying new markets, the demand for all grades was increased by developments in established uses and by the improvement in the general level of consumer business. Sales of "Cellophane" after making moderate progress in the first six months, continued thereafter at an accelerated rate for the remainder of the year, and the plant extensions completed in 1938 enabled production schedules to be maintained despite the higher volume of operations. Raw materials consumed in the manufacture of "Cellophane" are predominantly of Canadian origin and war conditions have had a relatively small effect on the manufacturing process.

The principal customers of the "Fabrikoid" Division comprise 60 different industries and their allied trades, and in 1939 they were supplied from the Toronto works with 700 different products. The reduced production of automobiles in Canada and changes in style resulted in a further decline of automotive sales, but with the increase in industrial demand and the elimination of distress selling on the Canadian market by United States exporters, the Division was able to report a moderate improvement in total sales. A number of new products were designed to meet trade requirements and during the year some new coating machines of the latest design were installed to replace existing

equipment, thus providing facilities for further advances in the variety and quality of products.

The Paint and Varnish Division serves three main markets and for the year 1939, although sales to the automobile industry were lower on account of the smaller production of cars, increased sales to other manufacturers and to the retail trade more than compensated for the reduction. Total sales by the end of the half-year were already in advance of those for the same period last year, and increases in the closing months brought the total for the full year to a new high mark. Long-continued emphasis on research and technical assistance to the consumer has enabled the Division to maintain its leadership in sales to industrial manufacturers, and the same factor, together with a broad merchandising policy, has resulted in the attainment of an important position in sales to the retail trade. Introduction of "Trutone" White paint to the retail line in 1939 met with an enthusiastic reception from dealers and consumers, and contributed appreciably to the increase in sales to retailers. Production was necessarily at a very high level in the Toronto works and was well maintained at Regina. In Montreal all previous production records were exceeded with the result that it was decided to build a new works to replace existing manufacturing facilities. Equipment of this modern plant, which will supply the requirements of the Province of Quebec and the Maritime Provinces, was within one month of completion at the end of the year.

Substantial gains were made by the Plastics Division during the year, the result to some extent of the cessation of competition from Germany. To supply the demand for moulded combs, manufactured exclusively from Canadian-made moulding powders, additional factory equipment was installed. "Lucitone", an acrylic denture base material, was added to the resale lines of the Division, and the use of nylon monofilament, now well-established in toothbrush manufacture, was extended to include hairbrush bristles and fishing leaders. A new transparent material, "Butacite", developed expressly for safety glass manufacture, is now widely used in that industry, replacing cellulose acetate, another of the resale products of the Division.

CHEMICAL GROUP

Operations of the Alkali Division depend to a large extent on the output of Canadian bleached sulphite and kraft mills, which consume the major portion of the liquid chlorine produced in Canada. Owing to poor conditions prevailing in the pulp and paper industry during the first eight months of the year, the alkali plants operated at an even lower level than in 1938, but war conditions brought about an immediate increase in the output of bleached pulp. As a result the level of chlorine sales during the last four months of the year was more than double the average monthly rate of the previous eighteen months, and to meet this peak the new Shawinigan Falls plant was brought into operation. The demand for caustic soda, the other important product manufactured by this Division, used mainly by the soap, viscose, pulp and paper and textile industries, was well maintained throughout the year. Considerable progress was made on a programme of modernization and expansion of plant facilities at Windsor and work was begun on a new caustic finishing plant at Shawinigan Falls.

The General Chemicals Division manufactures and supplies products for a wide variety of industrial activities, in which the six most important consuming industries are metal processing, chemical manufacture, mining, pulp and paper, soap and textile. From the beginning of the year, sales were maintained at approximately the 1938 level until the closing months of 1939 when they moved sharply upward and production of sulphuric acid, muriatic acid, glauber salts, ammonia and silicate of soda, the Division's major products, reached a very high rate. Nitre cake is no longer an essential raw material in the metallurgical processes of the International Nickel Company of Canada Limited and the plant for manufacturing this product is inactive. Owing to greater industrial activity and discontinuance of imports from certain European sources, the demand for the many resale products handled by this Division increased to abnormal levels. The possibilities of economic manufacture in Canada of various chemicals hitherto imported continued to be the subject of careful study. As a result of a new process developed by the Company, a

plant is being constructed at Hamilton to produce ammonium chloride which is used for treating metals and for electrical batteries.

Classified by products, the activities of the Mining and Organic Chemicals Division may be divided in almost equal proportions under three headings—mining chemicals, dyestuffs and miscellaneous products. Sales of mining chemicals showed some increase over 1938, with sodium cyanide, used for the extraction of gold, the most important single chemical in this class. In the months preceding the war, dyestuffs sales were at approximately the 1938 level, but in the last four months there was a sharp expansion caused mainly by the greatly increased output of the textile and paper industries. Other products handled by the Division showed satisfactory advances in sales, particularly in the specialty class which includes neoprene, the synthetic rubber material used in gasoline hose and for many other purposes because of its unusual oil and heat resisting characteristics; "Mycoban", introduced in the spring of the year for the prevention of mould and rope formation in bread; gasoline antioxidants; lubricant assistants; and several other new products. Of the chemicals manufactured by this Division at Shawinigan Falls, further sales expansion was recorded in both hydrogen peroxide for bleaching textiles and chlorinated hydrocarbon solvents for degreasing and dry-cleaning.

In addition to salt sold in bulk to meat packers, canners and chemical manufacturers, the Salt Division produces free-running "Windsor" salt sold in packages for household use; large and small blocks for stock-feeding purposes; and various specialty grades. On account of its well-known stabilizing qualities an increasing use is being made of salt in constructing highways, airports and railway roadbeds, and improvements have been made in methods of ice removal from urban streets by salt-treated abrasives. The programme of works modernization and expansion having been completed, attention was concentrated in 1939 on achieving maximum operating efficiency. Selling price conditions were further improved and the Division showed a modest profit on the year's operations.

EXPLOSIVES AND AMMUNITION GROUP

Favourable weather during the fall shooting season, together with good game conditions and increased purchasing power in the Prairie Provinces, resulted in a strong demand for sporting cartridges. The consumption of cartridges for target shooting also showed a further increase attributable to the growth in membership of the Dominion Marksmen clubs. Since an organized programme was undertaken to obtain publicity for all .22 Sporting and Target Rifle Competitions and their regional results, the registered membership in these clubs has risen from 10,000 members in 1935 to over 30,000 members at the end of 1939. Intensive study directed towards attaining the highest possible standard of operating efficiency and product quality was continued at the works throughout the year. Certain improvements were effected including the replacement of older equipment with new machinery.

The substantial increase in the output of the gold and base metal mines accounted for much the greater part of the record demand for high explosives, although non-metal mines, quarries and coal mining also contributed to the improvement. Sales for construction purposes were considerably lower owing to the reduction in highway building throughout the country, although the use of explosives for "fill settlement" work continued to be of importance in constructing modern trunk highways. The high production volume, together with improvements in operating efficiencies and economic buying of basic raw materials, resulted in cost savings which, conforming with policy, were shared with the consumer through lower selling prices. From year to year the Division's manufacturing facilities have been developed to allow a reasonable margin of reserve capacity above the demand of Canada's growing industries, and in 1939 new plant facilities were added to ensure continuity in supplies of certain materials essential to the manufacturing process, thereby safeguarding deliveries of finished products to consumers.

In accomplishing at all four works the heavy production schedules entailed by the increased volume of sales, the Division maintained its excellent record for safety in operations. There has

been much favourable comment regarding the technical department's educational service which, by methods such as the distribution of display-posters and bulletins, continued its endeavours to promote efficient and safe handling of commercial explosives. The department also maintains a widespread personal contact with customers and consults freely in planning the blasting techniques best suited to the varied problems of the industries represented.

FERTILIZER GROUP

Despite the late spring and the low price of wheat and other farm products in the early part of the year, total fertilizer sales for 1939 reached a new high level. Further progress was made in developing new lines to meet special farming requirements and in building up sales of such products as insecticides, fungicides, mineral supplements and "Cel-O-Glass", which continue to be in demand by farmers and fruit-growers at times of the year when purchases of farm fertilizer are small. Off-season business was also augmented by an increase in bulk sales to other manufacturers whose supplies have been curtailed by diminished imports.

Agricultural development assumes a new significance in the national effort now called for and increases the importance of the educational activities pursued for the benefit of the farmer by government departments and other organizations. In this work the Fertilizer Group is glad to co-operate by means of its monthly news letter to all agricultural representatives and its advisory and soil-testing services which are available without charge to farmers. Films have been produced within the Company depicting improved results obtained through the use of carefully selected fertilizers and have aroused considerable interest in the farming communities in which they have been shown.

GENERAL

Examination of the growth of the Company's manufacturing investment over the past ten years reveals that it is almost entirely the result of the construction of additional plant capacity, as acquisitions of properties previously owned by other enterprises account for less than 10% of the Company's total expansion.

Consistent progress has been made possible largely by the increased use of chemicals in Canada's growing industries and by the introduction of new processes and products. Many of these developments were the result of lengthy study by chemical and engineering specialists and intensive laboratory work, and to this the Company has contributed not only its own research facilities, but also those achievements made available to it through its association with Imperial Chemical Industries Limited and E. I. du Pont de Nemours and Company. A measure of the relative importance of chemistry in the Dominion's industrial activity is to be found in recent annual reports of the Patent Office. For the year ended March 1939, Canadian applications under the category "Chemistry", which have increased steadily in number for the past six years, again constituted by far the largest group.

Throughout the period referred to above, selling prices of the Company's manufactured products have been progressively lowered and this policy has undoubtedly aided in stimulating demand. The part played by economical distribution in reducing price levels has not been overlooked and the ratio of selling and advertising expenses to the Company's total sales compared favourably with the average for all chemical producers included in a published survey of industry in the United States.

MANAGED INVESTMENTS

FURTHER progress was shown by the companies in which Canadian Industries Limited has an investment and management interest. The encouraging results are partly attributable to generally improved business, although the development of wider consumer acceptance of products and the extension of markets contributed to the larger sales volume.

The upward trend in the sales of Aluminate Chemicals Limited, which supplies industry in this country with sodium aluminate and other chemicals for the treatment of boiler-feed water, continued during the year.

Canadian Hanson & Van Winkle Company Limited had a successful year with sales and profits well above the level of 1938. The local management actively pursued its policy of developing

new products for the metal processing industry and the demand for metal plating supplies and equipment was substantially higher despite the disappointing volume of sales to the automotive industry.

The larger sales of fuse and accessories and the economies resulting from the higher volume of production brought about an advance in the profits of Canadian Safety Fuse Company Limited.

The efforts expended to develop the use of titanium pigments since the formation of Canadian Titanium Pigments Limited in 1937 are meeting with increasing success and sales in 1939 improved substantially. Lower selling prices were put into effect and purchases by the paint and paper industries showed an encouraging expansion. A special laboratory has been equipped to render technical service to customers, and prospects for a widening of the market are seen in the rubber and textile industries.

For the purpose of segregating from normal commercial operations the production of munitions for the Canadian or Allied governments, a fully owned subsidiary company, Defence Industries Limited, was formed in September 1939. The first fiscal year of the company will not close until 31st December, 1940.

A new high level in the demand for the products of Dunlop Tire and Rubber Goods Company Limited resulted in a continuation of the marked improvement in evidence during recent years. The substantial advance in profits allowed a dividend payment, the first since 1929, on the common shares, in which a minority interest is held.

ORGANIZATION

UPON the appointment of Mr. Arthur B. Purvis as Director-General of the British Purchasing Commission and later as Chairman of the Anglo-French Purchasing Board in the United States, he was granted leave of absence in his capacity as President and Managing Director of the Company, and Mr. George W. Huggett was appointed First Vice-President and authorized to

manage the affairs of the Company during the absence of the President on leave. Mr. H. Greville Smith was appointed a Vice-President.

The Company's manufacturing and resale operations are administered in eleven industrial divisions under the direction of the four group general managers and their assistants. Each of these managers is responsible for the final results of the divisions within his group and for co-ordinating their affairs in accordance with Company-wide policies. Division managers control the manufacturing, distribution and sales activities of their respective divisions and follow closely the trade and industrial developments which may affect the material and product markets in which they are interested.

Centralized departments represent the Company in certain of its relationships with government departments, business associates, the public and employees, and co-operate with the industrial divisions by rendering them specialized services. In view of the importance of its work, the staff which had been developed to supervise general matters pertaining to the Company's industrial relations activities and plans was formed into a separate department early in 1939. The service departments, numbering ten, now include: Accounting, Advertising, Engineering, Industrial Relations, Mechanical Efficiency, Patent, Purchasing, Research and Development, Secretarial (including legal and publicity sections) and Traffic.

Through the co-operation of the press in publishing news items concerning the Company, the public has been kept informed of the development of new products and processes, as well as of new or expanding manufacturing facilities and operations. The magazine "C-I-L Oval", published by the Company every two months in separate English and French editions, continues to draw from an ever widening circle of readers appreciative comment for its informative articles describing the contributions being made by industrial chemistry to large-scale manufacturing requirements and the varied needs of everyday life.

EMPLOYEE RELATIONS

AN increase in employment, largely the result of higher production levels, was noted during the last four months of the year, the figures for earlier months being below corresponding figures of the previous year. At 31st December the number of employees was 4,370 and had increased 19% from the total at the end of 1938. In addition, employees of the group of companies for the management of which your Company is directly responsible, numbered 1,160, an increase of 14% from 1938.

It was inevitable that the events of the year and their effect on the Company's activities should make heavy demands on the personnel which could be met successfully only by the combined efforts of individual employees and by the co-operation of all parts of the organization. The willing response of employees to this challenge is evidence of their awareness of Canada's need, and the Board is proud of the contribution that the Company is thus enabled to make as an efficient industrial unit.

The period following the outbreak of war found many employees seeking to serve their country in the armed forces, but on the advice of the Minister of National Defence employees were reminded that some of them, as highly skilled and trained workers, could render a greater service by standing to their posts in the Company. At the end of the year there were 43 employees serving in the forces. In recognition of the sacrifice being made by those who volunteer and can be spared for active service, the Company adopted a National Service Policy which provides for the granting of special leave, with continuation of service credit, pension and benefit coverage, and with full pay for the first month after enlistment, and thereafter special pay arrangements which are subject to annual review. During the first year of war a monthly allowance is being paid equivalent to the difference between regular Company pay and the sum of government pay and dependents' allowance, and, where no dependents' allowance is payable, an amount equivalent to the difference between two-thirds of Company pay and full government pay. In view of the commitment made to employees serving in the forces, all employees engaged since 1st September 1939 have been engaged

on the understanding that their employment may be terminated at the end of the war.

It is generally admitted that a satisfactory relationship between employees and management depends largely upon the extent to which there is mutual understanding of each other's problems. Such an understanding must be a matter of serious and continuous endeavour and it is believed that the relationship developed within the Company over many years is being strengthened by each additional year of its growth. The efforts of employees and management in achieving this result are deeply appreciated by the Board and are regarded as a real factor in the Company's success.

The thirteen works councils were active throughout the year in the discussion of a wide range of subjects, some raised by employees, others by the management. Now in its sixth year, the Employee Representation Plan, in virtue of which these councils function, provides for the annual election by secret ballot of employee representatives and the appointment by the management of additional representatives. The number appointed by the management must not be greater, but may be less than the number elected. Only payroll employees below supervisory rank are eligible to vote and be elected, but there is no restriction regarding appointed representatives. The councils afford opportunity for free discussion of all matters affecting employees, and it is noteworthy that, with a genuine desire to co-operate, such differences of opinion as have arisen have been resolved by discussion into decisions acceptable to all concerned.

The visit of Their Majesties the King and Queen was marked at each location by a holiday with pay, granted on the day of the Royal Visit to the vicinity, in order that employees who so desired might have the opportunity of demonstrating their allegiance on so memorable an occasion.

The monthly newspaper for employees, "Contact", which may be considered a part of the Company's industrial relations programme, publishes Company news and items of personal interest and thus constitutes a valuable link between the various units of the widely distributed personnel. It is published in separate English and French editions.

INDUSTRIAL RELATIONS PLANS

UNDER the Disability Wage Plan for Payroll Employees, 496 employees received \$38,300, representing payments up to a maximum of thirteen weeks' full wages, after a waiting period of one week, in each case of illness or non-occupational accident, and the difference between such full wages and workmen's compensation in cases of occupational accident.

The Vacation Plan enabled 2,075 eligible payroll employees to take vacations with pay, mostly of two weeks' duration, at a total cost of \$104,000.

The cost of these two Plans is borne entirely by the Company.

The Co-operative Health Insurance Plan paid 322 claims to the extent of \$25,800 for hospital, operation and allied services. The Medical Benefit Supplement to this Plan paid 342 claims for doctors' fees to the extent of \$4,000. The premium cost of this insurance is paid for jointly by the Company and the participating employees. Of the eligible employees, over 90% subscribe to the Plan and over 80% to the Supplement.

The 1939 Co-operative Savings Plan terminated in January, 1940, with the payment by the Trustee of \$379,200 to 2,567 participants. This amount comprised the participants' savings for twelve months, interest at 3% and the Company's contribution of 25 cents on each dollar of savings. The Plan was open to employees having not less than one year's service and earning not more than \$3,000 a year at the beginning of 1939, and permitted them to deposit up to 10% of their earnings, but not more than \$20 a month. About 84% of the eligible employees were participating when the 1939 Plan terminated.

Under the Pension Plan, 15 employees retired on pension, and the number on the pension roll at the end of the year was 85. An amount of \$229,700 was set aside for the pension reserve in 1939 and cash payments to pensioners totalled \$58,000. The Plan is supported entirely by the Company. Consideration of a project to introduce a contractual and contributory retirement plan was postponed indefinitely owing to the outbreak of war.

The Employees' Benefit Plan provided for the payment of \$32,300 in death benefits to the beneficiaries of 15 employees and

7 pensioners. The fund is maintained solely at the Company's expense and the amount credited to the reserve for the year totalled \$132,600. The benefits payable are graded in amount from \$1,000 up to a maximum of \$1,500 after 5 years' service.

The Bonus Plan, which has been in force for twenty-one years, takes effect in those years in which earnings from operations, exclusive of income from investments, exceed 6% of the manufacturing investment. When this occurs, an amount of not more than 15% of such excess is applied to the purchase from the Company of Class "B" non-voting common shares, the price being decided by the Board of Directors on the basis of earning power and other factors. Acting upon recommendations of senior executives, awards are made by a committee of Directors to those employees whose services are considered to have been of an outstanding nature and whose contributions to the year's results merit special recognition. By this means the initiative of these individuals and their continued association with the Company are fostered without disturbing the general scale of remuneration or developing a management cost disproportionate to results in poor earning years. Awards for the year 1939 were made to 187 employees and the shares allotted to each will be delivered in equal instalments over a period of four years.

Under the No-Accident Record Plan, prizes were presented to the employees of seven works in recognition of their having completed the required periods without accident. Owing largely to the number of new employees engaged during the year, a slight increase was shown in the frequency rate of personal injuries. However, the fact that the rate was kept low is ample evidence of the employees' constant vigilance and interest in accident prevention activities. There was also an increase in the severity rate of injuries, and in this connection the Board regretfully records the deaths of two employees following an explosion at the "Dominion" Ammunition Works.

The Service Pin and Watch Plan provided for the award of 578 pins marking successive five years of service up to and including twenty-five, and of 13 gold watches on the attainment of twenty-five years' service. There are now 1,376 employees having ten or

more years' service, and 338 having twenty or more years' service, either entirely with your Company or in part with an associated or an acquired company.

The above Plans were all in effect before the war and were continued without change for the pre-war employees. Four of them apply also to wartime employees, namely, the Employee Representation and No-Accident Record Plans, and the Disability Wage and Vacation Plans.

DIRECTORS

THE death of Sir Charles B. Gordon, G.B.E., on 30th July, 1939, terminated a period of twenty years' service as a director. His marked ability, sound judgment and wide experience enabled him to make a notable contribution to the Company and his loss was deeply felt by his colleagues.

During the year Mr. J. G. Nicholson and Mr. E. J. Barnsley were appointed directors of the Company and Mr. Richard Fort resigned.

On behalf of the Board of Directors,

GEORGE W. HUGGETT,
First Vice-President.

Montreal, Canada, 21st March, 1940.

AUDITORS' REPORT

Canadian Industries Limited,
Montreal.

We have audited the books of account and financial records of Canadian Industries Limited for the year ended 31st December, 1939, and have obtained all the information and explanations we have required.

The inventories shown on the attached Balance Sheet have been determined and certified by the management of the Company.

In accordance with Section 114 of the Dominion Companies Act, we report that profits earned by subsidiary companies for the year 1939 have been included in the attached accounts only to the extent of the dividends declared and received or receivable by this Company. The balances of these profits have been carried forward in the books of the subsidiary companies and are, in the aggregate, in excess of the losses sustained by two subsidiary companies, which losses have also been carried forward in the books of those companies and have been provided for in the attached accounts.

We certify that, in our opinion, the attached Balance Sheet and relative Income and Expenditure and Surplus Accounts are properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs as at 31st December, 1939, and the result from operations for the year ended that date, according to the best of our information and the explanations given to us and as shown by the books of the Company.

P. S. ROSS & SONS,
Chartered Accountants.

Montreal, 15th February, 1940.

CANADIAN INDUSTRIES LIMITED

INCOME AND EXPENDITURE AND EARNED SURPLUS ACCOUNT

FOR THE YEAR ENDED 31ST DECEMBER, 1939

Income from Operations after charging depreciation and all expenses.....		\$ 6,874,007
Income from Investments.....	\$ 775,217	
Profit on sale of Marketable Securities.....	4,219	779,436
		<u>\$ 7,653,443</u>
Less: Reserve for Income Taxes.....		1,421,300
NET INCOME FOR THE YEAR.....		<u>\$ 6,232,143</u>
Dividends:		
Preferred 7% Cumulative Stock.....	\$ 325,500	
Common Stock (\$7.50 per share).....	5,197,898	5,523,398
		<u>\$ 708,745</u>
SURPLUS FOR THE YEAR.....		3,639,486
Earned Surplus at 1st January, 1939.....		<u>\$ 4,348,231</u>
EARNED SURPLUS AT 31ST DECEMBER, 1939....		<u><u>\$ 4,348,231</u></u>

NOTE: Included in the expenses charged against Income from Operations are the following items; depreciation \$ 1,722,208, remuneration of 32 executives including bonus awards \$707,740, directors' fees \$20,758 and legal expenses \$5,382.

CAPITAL SURPLUS ACCOUNT

FOR THE YEAR ENDED 31ST DECEMBER, 1939

CAPITAL SURPLUS AT 1ST JANUARY, 1939.....	\$14,930,636
Net Profit on sale of Capital Assets.....	462
	<u>\$14,931,098</u>
CAPITAL SURPLUS AT 31ST DECEMBER, 1939....	<u><u>\$14,931,098</u></u>

CANADIAN INDU

BALANCE SHEET AT

ASSETS

CURRENT ASSETS

Cash.....	\$ 2,979,686	
Marketable Securities (market value \$4,172,000)...	4,225,886	
Government.....	\$ 3,973,488	
Others.....	<u>252,398</u>	
Accounts Receivable, less reserve for doubtful accounts.....	4,739,027	
Customers' Accounts.....	\$ 3,788,207	
Subsidiary Companies.....	339,856	
Accrued Revenue from Investments and Other Accounts.....	<u>610,964</u>	
Inventories, valued at the lower of cost or market price.....	<u>8,074,231</u>	\$20,018,830

DEFERRED CHARGES TO OPERATIONS..... 111,286

PREFERRED SHARES, IN TRUST FOR EMPLOYEES'
STOCK INVESTMENT PLANS..... 922,720

FIXED ASSETS

Plants, Buildings and Equipment, based on the appraisals of the National Appraisal Company (1927 to 1929), as adjusted by the Company's own engineers, with sub- sequent additions at cost.....	32,669,783	
Land, at cost.....	1,663,559	
Goodwill, Patents and Processes.....	<u>3,378,151</u>	37,711,493
Investments in Subsidiary Companies.....	1,081,698	
Shares in Other Companies (including marketable shares, book value \$2,500,000, market value \$7,493,000).....	<u>3,587,685</u>	4,669,383
		<u>\$63,433,712</u>

Approved on behalf of the Board,

R. H. McMASTER }
G. W. HUGGETT } *Directors.*

STRIES LIMITED

31st DECEMBER 1939

LIABILITIES

CURRENT LIABILITIES

Accounts Payable.....	\$ 2,713,070	
Subsidiary Companies.....	10,994	
Dominion, Provincial and Municipal Taxes...	1,457,178	
Dividends Declared.....	<u>81,375</u>	\$ 4,262,617

DEFERRED LIABILITIES.....		122,564
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RESERVES

Depreciation of Securities.....	1,200,000	
Depreciation of Plants, Buildings and Equipment.....	16,026,823	
Pension and Benefit Plans and Self-Insurance..	<u>3,133,812</u>	20,360,635

CAPITAL STOCK

Authorized		Shares
Preferred 7% Cumulative Stock (par value \$100).....	75,000	
Common Stock (no par value)		
Class "A" Voting.....	660,000	
Class "B" Non-voting.....	<u>690,000</u>	
Issued and Fully Paid		
Preferred Stock.....	46,500	4,650,000
Common Stock		
Class "A".....	615,974	
Class "B".....	<u>77,079</u>	693,053
(Issued during the year to employees under the Company's Bonus Plan, 2,934 Class "B" shares—\$410,760)		14,758,567

CAPITAL SURPLUS.....	<u>14,931,098</u>	34,339,665
EARNED SURPLUS.....		<u>4,348,231</u>
		<u>\$63,433,712</u>

This is the Balance Sheet referred to in our attached Report of even date.

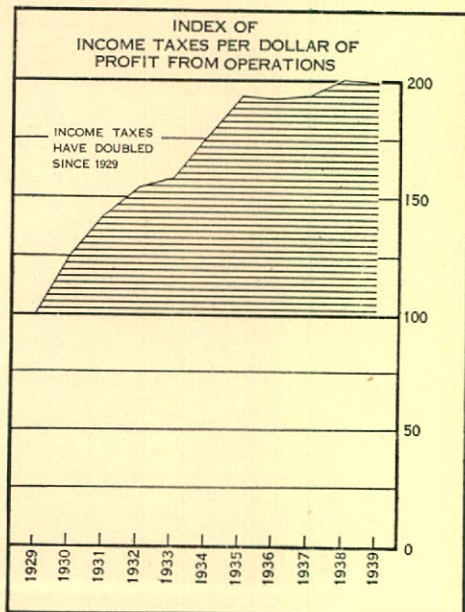
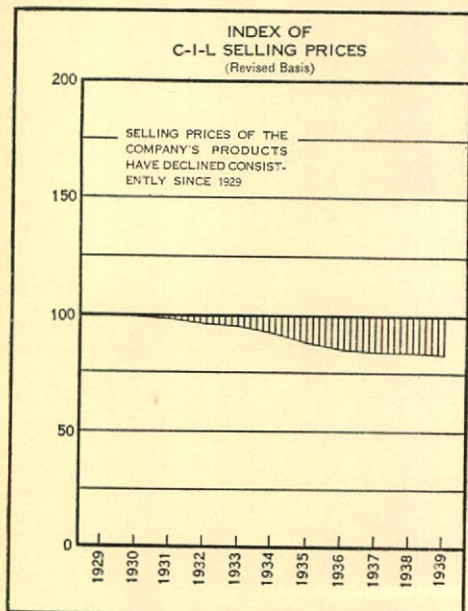
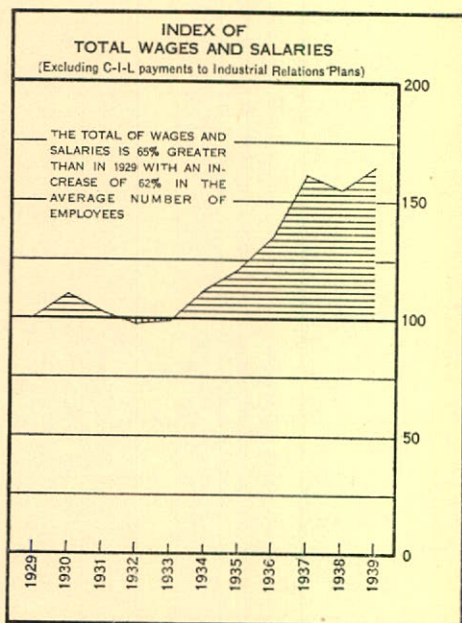
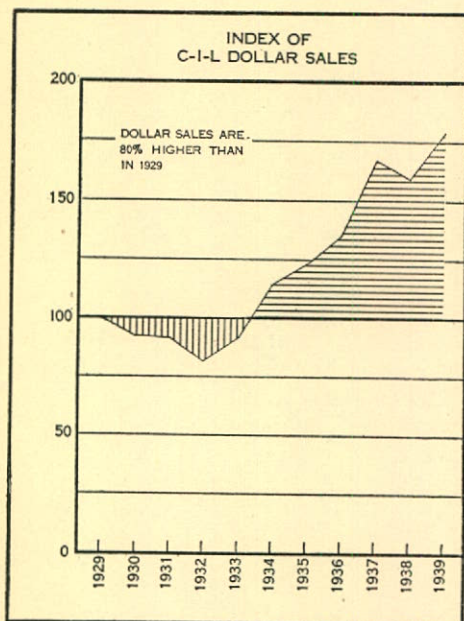
P. S. ROSS & SONS, *Chartered Accountants.*

Montreal, 15th February, 1940.

CANADIAN INDUSTRIES LIMITED

STATISTICAL INDICES

1929 = 100



CANADIAN INDUSTRIES LIMITED

CELLULOSE PRODUCTS GROUP

"CELLOPHANE" DIVISION

Plain transparent, moistureproof transparent and other special grades of plain and coloured "Cellophane" cellulose film.

"FABRIKOID" DIVISION

"Fabrikoid" and rubber-coated fabrics; "P.X." book cloth and other binding materials; "Tontine" window-shade cloth, buckram, etc.

PAINT AND VARNISH DIVISION

Lacquers, varnishes and enamels; oil colours; industrial paints; "Duco", "Dulux" and "Pyralux" for industrial and automotive finishes; "Cilux" for household uses, etc.

PLASTICS DIVISION

Combs; tooth-brushes; toiletware; transparent and opaque plastic sheets, rods and tubes; moulding powders; X-ray film and chemicals; "Lucitone" denture material; "Extol" bristles and nylon fishing leaders.

CHEMICAL GROUP

ALKALI DIVISION

Caustic soda and other alkalis; chlorine; bleaching powder and other chlorine derivatives.

GENERAL CHEMICALS DIVISION

Sulphuric and muriatic acids, aqua and anhydrous ammonia and refrigerant gases, ammonium chloride and other heavy chemicals.

MINING AND ORGANIC CHEMICALS DIVISION

Dyestuffs; dry colours and pigments; intermediates; mining chemicals, rubber colours and chemicals; solvents; ceramic materials; nylon yarn and other organic chemicals.

SALT DIVISION

All grades of "Windsor" salt for household, agricultural and industrial purposes.

EXPLOSIVES AND AMMUNITION GROUP

"DOMINION" AMMUNITION DIVISION

"Duco" waterproof shot-shells and all other classes of sporting ammunition embodying "Super-clean" non-mercuric priming; railway fuses and signals, etc.

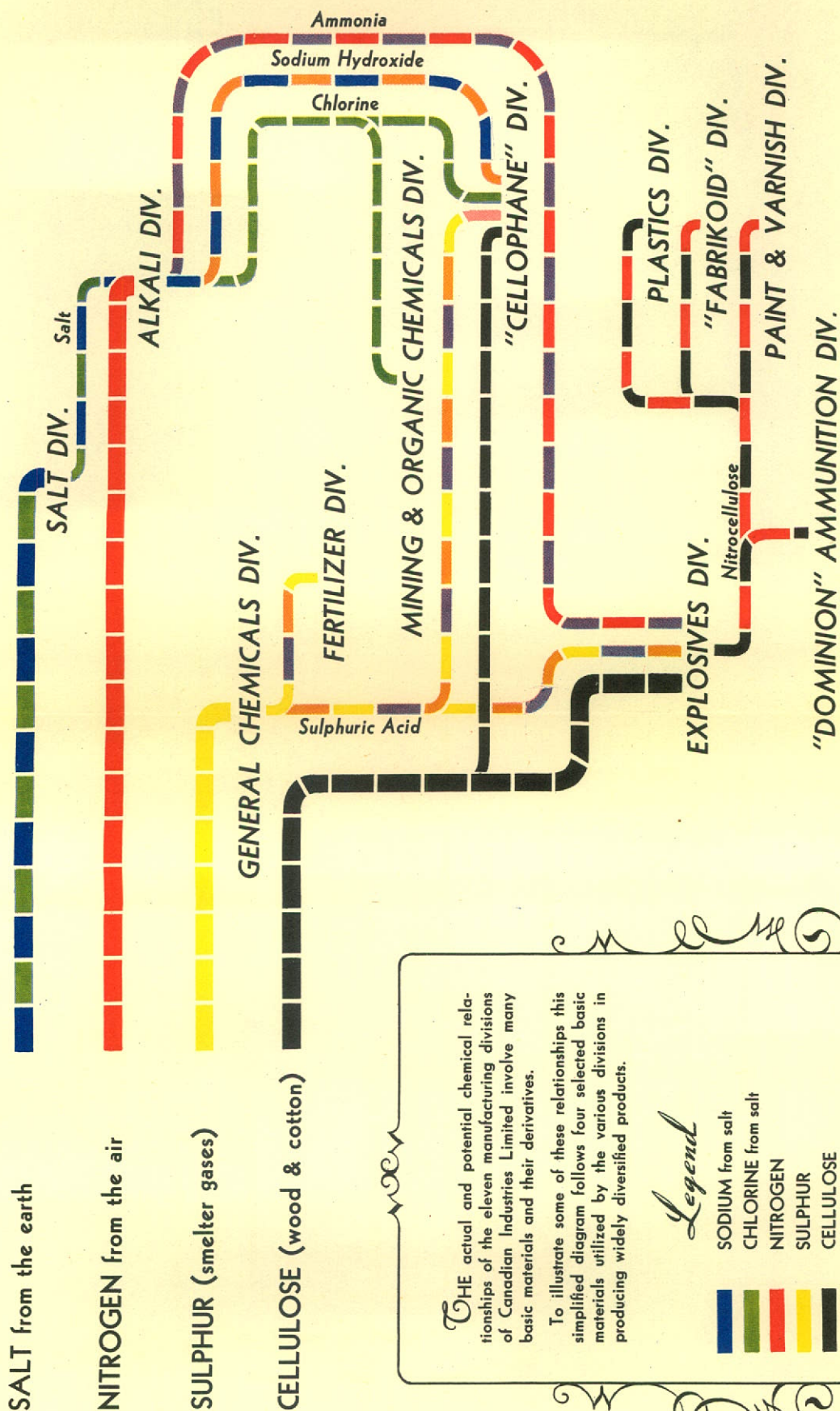
EXPLOSIVES DIVISION

Commercial explosives and blasting accessories.

FERTILIZER GROUP

FERTILIZER DIVISION

Superphosphate; complete fertilizers; "Gardene" plant food; insecticides; "Cel-O-Glass"; "Sol-Min" (mineral supplement); "Stable-Phos", etc.



THE actual and potential chemical relationships of the eleven manufacturing divisions of Canadian Industries Limited involve many basic materials and their derivatives.

To illustrate some of these relationships this simplified diagram follows four selected basic materials utilized by the various divisions in producing widely diversified products.

Legend

■	SODIUM from salt
■	CHLORINE from salt
■	NITROGEN
■	SULPHUR
■	CELLULOSE
■	HYDROGEN from water
■	OXYGEN from water

